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Message Text

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61/51
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C O R R E C T E D C O P Y (PARA 4)

E.O. 11652: N/A
TAGS: ECON, OECD
SUBJECT: EDRC ANNUAL REVIEW OF NORWAY, DECEMBER 4

REF: OECD DOCUMENT EDR(74)35

1. SUMMARY: SECRETARIAT SEES CONTINUED BUOYANCY OF NORWEGIAN ECONOMY IN 1975, DESPITE GENERAL ECONOMIC SLOWDOWN MOST OTHER OECD COUNTRIES. MAIN ISSUES FOR

CONSIDERATION BY EDRC WILL BE SHORT TERM POLICY IMPLICATIONS OF PRESENT DEMAND AND INFLATION OUTLOOK, AND EFFECTIVENESS OF STABILIZATION POLICY INSTRUMENTS. THIS YEAR'S REVIEW DOES NOT DEAL WITH MEDIUM TERM ADJUSTMENT PROBLEMS ASSOCIATED WITH NORWAY'S EXPECTED ROLE AS MAJOR OIL PRODUCER, SINCE THESE WERE COVERED THOROUGHLY IN 1974 REVIEW. ACTION REQUESTED: US IS ONE OF TWO EXAMINING COUNTRIES FOR NORWAY. LE WOULD
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APPRECIATE ANY COMMENTS OR QUESTIONS WHICH DEPARTMENT OR

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EMBASSY OSLO CAN PROVIDE BY DECEMBER 3. END SUMMARY.

2. MAIN ISSUES: QUESTIONS IN SECRETARIAT MAIN ISSUES PAPER FOCUS ON USE AND EFFECTIVENESS OF STABILIZATION POLICY INSTRUMENTS. THESE INCLUDE EXAMINATION OF APPROPRIATENESS OF PRESENT EXPANSIONARY DEMAND MANAGEMENT POLICIES AT TIME OF RAPIDLY RISING PRICES AND GROWING SUPPLY CONSTRAINTS, ESPECIALLY IN LABOR MARKET. SECRETARIAT ALSO INTERESTED IN LEARNING WHETHER NORWAY CAN STRENGTHEN MONETARY POLICY INSTRUMENTS BY MORE ACTIVE USE OF INTEREST RATES OR POSSIBLY BY OPEN MARKET OPERATIONS. THEY ALSO QUESTION WHETHER SCOPE REMAINS FOR FURTHER ANTI-INFLATIONARY MEASURES IN PRICE AND INCOMES FIELD, AT TIME WHEN WAGE BARGAINING ROUND HAS BEEN COMPLETED AND PRICE SUBSIDIES ARE ALREADY EXTENSIVE. FINALLY, SECRETARIAT HOPES TO LEARN ABOUT MEASURES BEING TAKEN TO PROMOTE STRUCTURAL SHIFT IN LABOR FORCE.

3. OUTPUT AND EMPLOYMENT: NORWAY IS ONEOF FEW OECD COUNTRIES NOT EXPERIENCING SIGNIFICANT LOSS OF OUTPUT AND EMPLOYMENT DURING PRESENT INTERNATIONAL BUSINESS SLOWDOWN. SECRETARIAT SEES CONTINUED ACCELERATION OF GROWTH IN 1975 WITH GDP RISING 5.5 LARGELY AS RESULT OF ANTICIPATED INCREASE IN OIL PRODUCTION. GENERAL STATE OF EXCESS DEMAND PRESSURE CAN BE EXPECTED TO ASSURE CONTINUED HIGH LEVEL OF EMPLOYMENT INTO 1975, AND LABOR MARKET WILL REMAIN TIGHT WITH FURTHER INFLATIONARY IMPLICATIONS. MAJOR STIMULUS TO DOMESTIC DEMAND IS EXPECTED FROM PRIVATE CONSUMPTION WHICH IS EXPECTED TO RISE 17 PERCENT IN NOMINAL TERMS. MOST MAJOR COMPONENTS OF INVESTMENT WILL HOLD UP WELL, BUT THERE MAY BE REDUCTION IN OIL SECTOR INVESTMENT ACTIVITY BELOW 1974 LEVELS. EXTERNAL DEMAND WILL ALSO GIVE STIMULUS TO DOMESTIC ECONOMY AS RESULT OF OIL EXPORTS. SECRETARIAT CONCLUDES THAT BALANCE OF RISKS IS ON SIDE OF TOO MUCH RATHER THAN TOO LITTLE PRESSURE OF DEMAND.

4. PRICE OUTLOOK. SECRETARIAT NOTES THAT NORWEGIAN CONSUHER PRICES ROSE LESS FAST THAN AVERAGE FOR EUROPEAN
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OECD COUNTRIES AND ATTRIBUTES NORWEGIAN SUCCESS IN CONTAINING POSSIBLE PRICE-WAGE SPIRAL TO SUCCESSFUL INCOMES POLICY INVOLVING SUBSTANTIAL TAX RELIEF AND PRICE SUBSIDIES. SECRETARIAT EXPECTS CONSUMER PRICES TO RISE SOMEWHAT FASTER THAN OFFICIAL FORECAST OF 11 IN 1975 AND CONSIDERS RESTORATION OF PRICE STABILITY TO BE MAJOR POLICY TASK FOR YEAR AHEAD. SECRETARIAT NOTES THAT SINCE IMPORTANT WAGE AND TAX DECISIONS CON-

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CERNING 1975 HAVE ALREADY BEEN TAKEN, IT MAY BE DIFFICULT TO DEVISE AN EFFECTIVE SHORT TERM ANTI-INFLATIONARY STRATEGY. THEY SEE COMBINED EFFECTS OF INDEXATION AND WAGE DRIFT LEADING TO INCREASE IN HOURLY EARNINGS OF AT LEAST 17 IN 1975.

5. POLICY IMPLICATIONS. SECRETARIAT BELIEVES THAT BOTH INCOMES POLICY AND TRADITIONAL DEMAND MANAGEMENT SHOULD BECOME INTEGRAL PART OF OVERALL ECONOMIC POLICY. MAJOR OBJECTIVE OF STABILIZATION POLICY WILL BE TO PREVENT

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FURTHER TIGHTENING OF LABOR MARKET CONDITIONS BY USE OF SELECTIVE RESTRAINT THROUGH MONETARY AND FISCAL POLICIES TO DAMPEN RAPID RISE IN INVESTMENT, AND BY INCREASING USE OF MANPOWER POLICIES TO PROMOTE LABOR MOBILITY. IN MEDIUM TERM, SECRETARIAT WARNS THAT TOO RAPID EXPANSION OF OIL SECTOR COULD LEAD TO SERIOUS

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IMBALANCES IN LABOR MARKET.

6. BALANCE OF PAYMENTS. SECRETARIAT EXPECTS THAT CURRENT ACCOUNT DEFICIT MAY REACH KR. 7.5 - 8 BILLION IN 1975, OR ABOUT 5 OF GDP. ALTHOUGH TRADE BALANCE SHOULD SHOW IMPROVEMENT IN VOLUME TERMS, SECRETARIAT EXPECTS TERMS OF TRADE DETERIORATION TO RESULT IN FURTHER INCREASE IN TRADE DEFICIT OF UP TO KR. 1 BILLION. SHARP UPTURN IN SHIPMENTS OF OIL WILL BE OFFSET BY WEAKENING OF NON-OIL EXPORTS DUE LARGELY TO CAPACITY CONSTRAINTS RATHER THAN DEFICIENT EXTERNAL DEMAND (NB: IS THIS TRUE?). MERCHANDISE IMPORTS ARE FORECAST TO
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RISE AT LESS THAN HALF 1974 RATE DUE TO ENVISAGED CUT IN OIL SECTOR INVESTMENTS.

7. SINCE US IS EXAMINER OF NORWAY, WE WOULD APPRECIATE COMMENTS OR QUESTIONS BASED ON REFDOC AND ON CURRENT NORWEGIAN ECONOMIC SITUATION IN TIME FOR DECEMBER 3 PREPARATORY MEETING WITH CHAIRMAN OF EDRC. MISSION WOULD WELCOME EMBASSY OSLO PARTICIPATION AT ANNUAL REVIEW DECEMBER 4.
TURNER

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